

No. 15,638

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

KEMART CORPORATION,

Plaintiff-Appellant,

vs.

PRINTING ARTS RESEARCH LABORATORIES, INC.,

Defendant-Appellee.

BRIEF FOR APPELLEE.

JULIEN F. GOUX,

32 Howard-Canfield Building,
Santa Barbara, California,

LEONARD S. LYON,

LEONARD S. LYON, JR.,

ROLAND N. SMOOT,

811 West Seventh Street,
Los Angeles 17, California,

Attorneys for Appellee.

FILED

FEB 3 1958

PAUL P. HENNING, CLERK

TOPICAL INDEX

	PAGE
Jurisdiction	2
Statement of the case.....	2
Argument.....	15
I.	
The instant case is a case not of personal libel but of unfair competition, and the law of Ohio and general law holds good faith to be an absolute defense.....	17
II.	
The defense of qualified privilege is available in Ohio as elsewhere, even though this case be treated as one governed by the Ohio law of personal defamation.....	35
III.	
The finding by the District Court that appellee acted in good faith and without malice and that the publication of the charge of infringement was made to interested parties and was thus qualifiedly privileged, should not be overturned.....	46
IV.	
The Paris Convention is not applicable here.....	54
V.	
The District Court did not abuse its discretion in refusing to award attorney's fees to Kemart.....	61
Conclusion	63

TABLE OF AUTHORITIES CITED

CASES	PAGE
A. B. Farquhar Co., Ltd. v. National Harrow Co., 102 Fed. 714	22, 23
Alliance Securities Co. v. De Vilbiss Mfg. Co., 41 F. 2d 668....	24, 25
American Ball Co. v. Federal Cartridge Corporation et al., 70 F. 2d 579.....	42
Bacardi Corporation of America v. Domenech, 311 U. S. 150, 85 L. Ed. 98.....	57
Bechik Products, Inc. v. Flexible Products, Inc., 225 F. 2d 603	22, 23
Blair v. Burroughs, 23 Bull. 180.....	37
Celite Corporation v. Dicalite Co., 96 F. 2d 242, cert. den. 305 U. S. 633, 83 L. Ed. 407.....	21, 42, 55
Cincinnati St. Ry. Co. v. Cincinnati Daily Tribune Co., 10 Ohio Dec. 281	41
Cleveland Leader Printing Co. v. Nethersole, 84 Ohio St. 118, 95 N. E. 735.....	43
Coats Loaders & Stackers, Inc. v. Robert D. Henderson et al, 233 F. 2d 915.....	24, 26
D. E. Virtue v. Creamery Package Manufacturing Company, 227 U. S. 8, 57 L. Ed. 393.....	20
De Angelo v. W. T. Grant Co., 64 Abs. 366, 111 N. E. 2d 773....	40
Dopp v. Doll, 9 Dec. Rep. 428, 13 Bull. 335.....	33
Eastern States Petroleum Co. Inc. v. Asiatic Petroleum Corpo- ration, et al., 103 F. 2d 315.....	22
Emack v. Kane et al., 34 Fed. 46.....	42
Harris v. Reams, 2 Dec. Rep. 281.....	39
Heimlich v. Dispatch Printing Co., 10 Ohio N. P. (N. S.) 505....	41
Heindel v. United States, 150 F. 2d 493.....	42
How v. Bodman, 12 Dec. Rep. 272.....	39

International Industries and Developments, Inc. v. Farbach Chemical Company, Inc., 145 F. Supp. 34, aff'd 241 F. 2d 246	24, 26
Joseph v. Christy, 8 Dec. Rep. 476, 8 Bull. 190.....	33
Kahn v. Cincinnati Times-Star, 8 N. P. 616, 10 Ohio Dec. 599, aff'd 52 Ohio St. 662, 44 N. E. 1132.....	41
Kaplan et al. v. Helenhart Novelty Corporation et al., 182 F. 2d 311	22
Kemart Corporation v. Printing Arts Research Lab., 146 F. Supp. 21	1
Kemart Corporation v. Printing Arts Research Laboratories, Inc., 201 F. 2d 624.....	1, 49
Kemart Corporation v. Printing Arts Research Lab., 232 F. 2d 897	1
Liles v. Gaster, 42 Ohio St. 631.....	36
Mason v. Stacey & Carroll, 7 Dec. Rep. 567, 3 Bull. 1100.....	33
McCue v. Wells, 121 Ohio St. 53, 166 N. E. 892.....	24, 28
Metro-Goldwyn-Mayer Corp. v. Fear, 104 F. 2d 892.....	42
Meyer v. Parr, 69 Ohio App. 344, 37 N. E. 2d 637.....	45
Mulcahy v. Deitrick, 39 Ohio App. 65, 176 N. E. 481.....	41
Oil Conservation Engineering Co. v. Brooks Engineering Co., 52 F. 2d 783.....	24, 25, 26
Park-In Theatres, Inc. v. Perkins, et al., 190 F. 2d 137.....	61
Peer v. Hoiles, 3 Ohio L. Abs. 653.....	41
R. W. Eldridge Co., Inc. v. Southern Handkerchief Mfg. Co., 23 F. Supp. 179.....	22
Ramseyer v. Sheehan, 1 Ohio L. Abs. 233.....	39
Ratterman v. Ingalls, 48 Ohio St. 468, 28 N. E. 168.....	42
Reserve Life Ins. Co. v. Simpson, 206 F. 2d 389.....	47
Shallenberger v. Scripps Pub. Co., 17 Ohio (N. S.) 546, aff'd 85 Ohio St. 492.....	31
Tappmeyer v. Journal-Republican Co., 31 Ohio Dec. 32.....	31

	PAGE
The Henry Gehring Co. v. McCue, 23 Ohio App. 281, 154 N. E. 171	24, 28
The Post Publishing Co. v. Moloney, 50 Ohio St. 71, 33 N. E. 921	38, 44
Touts v. The State of Ohio, 113 Ohio St. 450, 149 N. E. 551....	42
Union Central Life Ins. Co. v. Mutual Benefit Life Ins. Co., et al., 5 Dec. Rep. 521, 2 Bull. 269.....	41
United States Galvanizing & Plating Equipment Corporation v. Hanson-Van Winkle-Munning Co., 104 F. 2d 856.....	22
Vanity Fair Mills, Inc. v. The T. Eaton Co., Ltd., and John David Eaton, 234 F. 2d 633.....	56, 59
Virtue v. Creamery Package Mfg. Co., 123 Minn. 17, 142 N. W. 1136	21
Wahle v. Cincinnati Gazette Co., 6 Dec. Rep. 709, 4 Bull. 61....	37
Watson v. Trask, 6 Ohio 531, 27 Am. Dec. 271.....	17, 24, 29, 32, 33, 34, 35, 40, 41
Westlake v. Westlake, 34 Ohio St. 621.....	44
Westropp v. The E. W. Scripps Co., 148 Ohio St. 365, 74 N. E. 2d 340.....	41
Zephyr American Corporation v. Bates Mfg. Co., 59 F. Supp. 573	22

RULES

Federal Rules of Civil Procedure, Rule 60(b).....	54
Rules of the United States Circuit Court of Appeals for the Ninth Circuit, Rule 37.....	11

STATUTES

Act of 1946, Sec. 44 (15 U. S. C., Sec. 1126).....	59
Ohio Constitution, Art. 1, Sec. 11.....	43
Ohio Constitution, Sec. 2317.04	43
Ohio Constitution, Sec. 2317.05	43
Ohio Constitution, Sec. 2739.02	43

	PAGE
Ohio Revised Code, Sec. 2901.37.....	42
Patent Act of 1952, Sec. 287.....	60
United States Code, Title 28, Sec. 1291.....	2
United States Code, Title 28, Sec. 1331.....	2
United States Code, Title 28, Sec. 1332.....	2
United States Code, Title 28, Sec. 1338.....	2
United States Code, Title 28, Sec. 2201.....	2
United States Code, Title 28, Sec. 2202.....	2
United States Code, Title 35, Sec. 284.....	63
United States Code, Title 35, Sec. 287	60, 63

STATUTES AND TREATIES

Convention for the Protection of Industrial Property of the Union of Paris (53 Stats. 1748).....	54
Paris Convention, Art. 10 Bis. 2° (47 Stats. 1807).....	16, 54, 56, 57, 58, 59, 60
Paris Convention, Art. 10 Ter. (1).....	57

TEXTBOOKS

1 Callman, Unfair Competition and Trade-Marks, Chap. 11, Sec. 42.4, pp. 594, 595	20
35 Corpus Juris Secundum, p. 68.....	33
2 Nims, Unfair Competition and Trade-Marks (4th Ed.), Sec. 266, p. 861.....	19
2 Nims, Unfair Competition and Trade-Marks (4th Ed.), Sec. 259, pp. 836-837.....	18, 32
2 Nims, Unfair Competition and Trade-Marks (4th Ed.), Sec. 264, p. 857.....	19
9 Ohio Jurisprudence 2d, Sec. 1, p. 555.....	44
25 Ohio Jurisprudence, Sec. 56, pp. 202 et seq.....	35
25 Ohio Jurisprudence, Sec. 69, p. 213.....	36
25 Ohio Jurisprudence, Sec. 81, p. 223.....	37
37 Ohio Jurisprudence, Sec. 420, p. 744.....	42
3 Restatement of Law of Torts, Sec. 573, Comment "g"	19
3 Restatement of Law of Torts, Sec. 647.....	19
3 Restatement of Law of Torts, Sec. 773.....	19

i Ur

No. 15,638
IN THE
United States Court of Appeals
FOR THE NINTH CIRCUIT

KEMART CORPORATION,

Plaintiff-Appellant,

vs.

PRINTING ARTS RESEARCH LABORATORIES, INC.,

Defendant-Appellee.

BRIEF FOR APPELLEE.

This is an appeal from a judgment of the United States District Court for the Southern District of California, Central Division, dismissing the claim of Kemart Corporation, appellant herein, for damages for unfair competition of the type constituting trade libel or disparagement of property, and for attorney's fees alleged to be due Kemart following its successful appeal in *Kemart Corporation v. Printing Arts Research Laboratories, Inc.* (9 Cir. 1953), 201 F. 2d 624. The decision appealed from is reported in *Kemart Corporation v. Printing Arts Research Lab.* (D. C. S. D. Cal., 1956), 146 F. Supp. 21 and follows the mandate of this Court after decision in *Kemart Corporation v. Printing Arts Research Lab.* (9 Cir. 1956), 232 F. 2d 897.

Jurisdiction.

Jurisdiction of the District Court is based upon diversity of citizenship under U. S. Code, Title 28, Section 1332. Kemart is a California corporation [R. 1, 9];* appellee is a Delaware corporation [R. 1, 10]; and the amount in controversy is in excess of three thousand dollars exclusive of interests and costs [R. 4, 11]. Appellee agrees that the District Court also has jurisdiction under U. S. Code, Title 28, Sections 1331, 1338, 2201 and 2202.

Jurisdiction of this Court is based upon U. S. Code, Title 28, Section 1291, as this appeal is from a final decision of the District Court entered on December 19, 1956 [R. 26-32]. The Notice of Appeal was filed on January 21, 1957 [R. 56] within thirty days after denial of a Motion to Amend filed January 2, 1957 [R. 32-54]. The record before this Court does not show such Motion to Amend to be timely, but it was served within ten days after entry of the final decision of the District Court on December 19, 1956.

Statement of the Case.

We are satisfied in the main with the review of the proceedings below set forth in Kemart's brief. We do not, however, agree with the statement by Kemart of the questions presented, and we are not satisfied with Kemart's recitation of the evidence before this Court.

Kemart's appeal raises three questions:

1. Is Kemart entitled to damages because appellee showed four interested persons in Ohio a letter charging that Kemart was infringing its patent after at

*In referring to the record, we will follow the practice initiated by Kemart in its brief at page 2.

least one of the persons was informed of such charge by Kemart and because appellee responded to Kemart's publication of the charge and a denial thereof in a national trade journal by statements in such trade journal asserting the charge to be true, all in good faith and without malice?

2. Should this Court overturn the express findings of the District Court that appellee, in charging Kemart with infringement of its patent, acted in good faith and without malice [Findings of Fact 1-D, 2, 6, 8; R. 27-29]?

3. Should this Court overturn the express findings of the District Court that the case on appellee's patent was not an exceptional case; that appellee evidenced no unfairness or bad faith during the trial of such case; that its conduct was actuated by a reasonable belief in good faith that Kemart's process was an infringement of its patent; that neither the conduct of appellee nor any other equitable consideration makes it grossly unjust that Kemart should pay its own counsel fees; and hold that the District Court abused its discretion in not awarding attorney's fees to Kemart [Findings of Fact 14, 15; R. 29, 30]?

Throughout the period commencing in October 1948, culminating in the decision of the District Court to the effect that the Marx patent was valid and infringed, Mr. Alfred G. McCaleb of Chicago, Illinois, advised and represented appellee. Mr. McCaleb was a widely experienced and nationally respected trial lawyer specializing in patent causes. Although Mr. Walter Marx, patentee on the Marx patent, was the actual operating head of appellee, the business of which is in Santa Barbara, California, Mr. McCaleb, in addition to his regular practice, occupied the

position of appellee's president. During that period and at the present time Mr. Frank Adams, also an attorney, occupied the position of president of Kemart. Mr. McCaleb is now deceased.

Before the Cleveland Photoengravers Convention in October of 1948 Mr. McCaleb advised appellee that the operations of Kemart constituted an infringement of the Marx patent and that users of the so-called "Kemart Process" were, themselves, infringers. He did this by letter [R. 176; Exhibit RR; R. 177, 287], and he discussed the matter of the infringement with Mr. Marx and Mr. Pensinger of appellee at his offices in Chicago, giving as his opinion that the infringement existed [R. 177, 178]. At that time Mr. Marx was familiar with the Berry patents which describe the Kemart process, had studied them, knew what the Kemart process constituted and was of the opinion himself that the Kemart process infringed [R. 178, 179, 191, 192]. Further, Mr. McCaleb was himself technically able to tell Mr. Marx about the Kemart process [R. 192]. Mr. McCaleb also warned Mr. Marx and Mr. Pensinger against discussing the controversy with any potential customers of appellee [R. 179, 180].

Mr. Marx took with him to the convention a copy of a letter from Mr. McCaleb to Kemart and before lunch on the first day of the convention handed the letter to Mr. Frank Adams, president of Kemart [R. 180; Exhibit 29; R. A. 745]. This letter charged that the Kemart Corporation, sponsor of the Kemart process, contributorily infringed the Marx patent and further charged that anyone practicing the Kemart process infringed the patent. Although the letter recommended that users of the Kemart process be notified of the existence of the Marx patent and their infringement thereof, Mr. McCaleb, as shown

above, did not authorize such notification, and, in fact, no approach to users was ever made.

According to Mr. Adams, right after seeing the letter he had lunch with Joe Mertle whom he told about the letter [R. 136, 137]. Mr. Mertle is not an employee of Kemart but rather an author and an authority on photo-engraving who is retained by many people in the photo-engraving industry to give technical advice. He was retained part-time by Kemart, but Kemart was just one of those who retained him [R. A. 321; R. 96]. Mr. Mertle is one of the three people to whom, according to Mr. Adams, the letter was shown. Another was Mr. Lewis Flader, executive secretary of the Photoengravers Association for thirty years, the leading figure in the entire Association, and editor of the Photoengravers Bulletin [R. A. 321; R. 95]. Finally, Mr. Adams testifies that the letter was shown to Mr. Paul Schmidt, head of the Pitman Company, one of the largest graphic arts supply firms in the country and who handled the products of appellee and the products of Kemart [R. A. 321; R. 95].

It was the charge of infringement levelled in the letter shown to the three above gentlemen that, according to Kemart, constitutes the libel in this case. Although recalling having himself published same to Mr. Mertle, Mr. Adams could not recall whether or not he saw Mr. Flader and Mr. Schmidt at any time subsequent to Mr. Adams having seen the letter, but prior to their having seen the letter, and consequently could not recall whether or not he told these gentlemen about the letter before Mr. Marx showed it to them. Owing to a very hazy memory after eight years, Mr. Adams did, however, state his best recollection to be that he did not [R. 136-141].

Mr. Marx concedes that he showed the letter to the gentlemen in question and to Mr. Latimer, an associate of Mr. Schmidt with the Pitman Company [R. 180-183]. This, however, took place following luncheon and consequently subsequent to the publication of the alleged libel by Mr. Adams himself to Mr. Mertle. He showed the letter to Mr. Mertle in response to Mr. Mertle's question about a patent suit, such question obviously being the upshot of Mr. Adams' own discussion with Mr. Mertle at lunch. Similarly, Mr. Flader approached Mr. Marx, asked about the Kemart battle, and was shown the letter. Very much the same thing happened in respect to Messrs. Schmidt and Latimer. They asked him about the battle and he showed them the letter. He did not comment about the matter himself, nor did he discuss the controversy between Kemart and appellee [R. 180-183].

The record before the District Court is absolutely barren of any activity during or after the convention on the part of Mr. Marx or any of the Printing Arts Research people which could be considered an attack upon the business of Kemart Corporation. Mr. Adams, however, went home and prepared and sent out a circular letter to the licensees of the Kemart process, which letter was mimeographed so that copies also went to Kemart dealers to be given to prospective Kemart licensees, among whom it may be assumed were the licensees of Printing Arts Research. The letter was also sent to the editor of the Photoengravers Bulletin, Mr. Flader, with the suggestion that he publish it because Mr. Adams "wanted to get my statement of opinions to as many people as I could" [R. 97-99; Exhibit 60; R. 265-267].

The letter of Mr. Adams set forth that appellee had charged Kemart with infringement and denied the in-

fringement. Not only was it sent to the various licensees of Kemart and of appellee, but it was published to the trade in the Photoengravers Bulletin [Exhibit NN; R. 284-287]. Thus, not only was the charge first published by Kemart to an individual, Mr. Mertle, but it was first published generally by Kemart through letters to the trade and through the Photoengravers Bulletin article. The letter, in addition to reporting the filing of the suit, asserted that the suit was filed "for the purpose of protecting you and ourselves against a series of threats by the representatives and employees of Printing Arts Research Laboratories, Inc.," expressed the opinion "that the owners of the fluorographic process are mistaken in their threats," and further asserted that "Not only are the threats and statements made by the defendants false in fact, in our opinion, but we regard them as contrary to the proper spirit of competition which should exist between two organizations endeavoring to render service and supplies to the photoengraving industry." Finally, the letter requested that its recipients forward to Kemart Corporation any communications or notices they might receive from Printing Arts Research Laboratories, Inc.

When the publication in the Photoengravers Bulletin came to the attention of the Printing Arts Research people it was discussed between them and with Mr. McCaleb. It seemed to the Printing Arts Research people "to distort the facts of the case" [R. 183]. The word "distort" but moderately characterizes the letter, the tenor of which was to proclaim to the entire industry that Printing Arts Research was attempting by coercive and improper means to destroy the business of Kemart Corporation and of its customers. Not once but six times does the letter refer to wrongful acts, doings and threats by Printing Arts

Research Laboratories, Inc. This despite the fact that even today not one iota of evidence exists establishing that appellee or its people had even discussed the matter with users of the process or customers. Mr. McCaleb, however, would not permit appellee to respond to the publication [R. 183]. It was not until the District Court denied Kemart's Motion for Preliminary Injunction months later that Mr. McCaleb permitted any release to the trade publication.

This release, which appeared in the Bulletin for May of 1949, truthfully and factually reported the status of the suit, that the injunction sought by Kemart Corporation had been denied, and set forth the contentions of appellee in answer to those advanced by Kemart when Kemart introduced the subject into the press. The release was accompanied by a notice which likewise reported the denial of the temporary injunction sought by Kemart, pointed out the legal effect of the action by the Court and advised the intention of appellee of protecting its interests [Exhibit 34; R. 263-265]. So far as the complained of libel is concerned, the release and notice added nothing to that which had been previously caused to be published in the same trade journal by Kemart. At this time appellee had about two hundred licensees [R. A. 218]. It derived its income from them and owed its business life to them. Kemart had undertaken a campaign to appropriate appellee's licensees unto itself, and appellee, believing in good faith that its patent was infringed, could not sit idly by indefinitely following the publicizing of the Kemart contentions by Kemart. It was incumbent upon appellee to protect its property. To this effect, there was also published in the Photoengravers Bulletin for June 1950 a news item advising the trade of the newly set date

for trial of the infringement suit and of suit brought in Chicago against a representative used of the Kemart process [R. 122; Exhibit 74; R. 282].

That about sums up the record supporting Kemart's claim for damages based on unfair competition. With one dubious exception, Kemart has failed to produce any instance pointing to any approach whatsoever by the Printing Arts Research people to customers, either orally or by letter. Exhibits 62, 65-70, 72 and 73 are merely letters expressing concern over the litigation, the publicity as to which was released by Kemart itself in the generally circulated letter Exhibit 60 and in Exhibit NN published in the Photoengravers Bulletin. Kemart's witnesses do not support the allegations of the Complaint. Youngdahl's testimony as to Krus, as to Repritone and as to Bee Engraving adds nothing [R. 152-157]. Mr. Adams concedes that the response to Kemart's request to recipients of the Kemart letter Exhibit 60, which asked that communications or notices received from Printing Arts Research Laboratories, Inc. be forwarded to Kemart, was nil [R. 146]. And Kemart did not bring one customer or potential customer or user of any photoengraving process forward to testify that appellee had threatened him under the Marx patent or, indeed, had approached him in any way.

In but one particular does it appear that any attempt is made by Kemart to substantiate its charges published to the trade in its letter Exhibit 60. That is in the testimony of Mr. Adams wherein he stated that Mr. Frey, a Printing Arts Research salesman, told him at a 1954 convention that he prevented a Kemart sale in Miami by stating that if the customer took Kemart, it was going to be sued [R. 115-117]. Mr. Frey, pursuant to stipulation, flatly denied that he discussed the conflict with any customers or others

outside the organization and denied that he discussed the matter in any manner with Mr. Adams. He testified that since the inception of the conflict, he had been under strict instructions from Mr. Marx not to discuss the conflict with anyone [R. 171, 172]. This was corroborated by Mr. Marx who testified that his instructions to Mr. Frey were not to discuss anything except the status of the case with anyone and was but consistent with the Printing Arts Research policy as regards discussion of the lawsuit [R. 185, 186]. Further, it is but consistent with Mr. Marx' testimony to the effect that he knew of no instance in which Mr. Frey approached any customers and discussed the lawsuit, and, indeed, knew of no instance when anyone else in the organization did the same [R. 186]. In any event, even if Mr. Adams' testimony may be believed, for all the record shows, the alleged customer contact took place subsequent to the judgment of the District Court granting to appellee an injunction to protect its patent and prior to the reversal in this Court.

As to matters concerned with the conduct of the litigation itself, the attack by Kemart seems to be levelled largely at Mr. McCaleb. Mr. McCaleb cannot defend himself for he is deceased, but the District Court had ample opportunity to observe the conduct and activities of both Mr. McCaleb and Mr. Marx during the trial. There was nothing extraordinary about the trial. It was routine and, as the District Court observed, ably presented on the part of both sides [R. A. 631]. It is nonsense to propose that the District Court was in any way imposed upon, deluded, misled or oversold. The District Court immediately grasped the real point at issue. This was simply whether or not the Marx patent claims, properly construed, covered the variation in the Kemart process

from the Marx process, whereby after ultra-violet light reached the copy, the light passing from the copy to the camera was fluorescent light of a different wave length [R. A. 277, 635-659]. This is the precise point at which the views of the District Court and the views of this Court diverged. This Court, as a matter of law, held that the term "ultra-violet light only" limited the patent claims to the precise type of light reaching the camera and held that properly construed, the Marx patent claims did not include the fluorescent light reaching the camera in the Kemart process (201 F. 2d 624 at page 627).

In an attempt to establish malice and bad faith at the trial, Kemart has seized upon certain incidents common to hard-fought litigation, and from these urges, in effect, that Mr. McCaleb conducted himself improperly at the trial and that appellee's entire conduct in the premises is to be criticized. With this view, of course, Judge Mathes did not agree.

Kemart alludes to struggling for two days to obtain answers on a deposition, despite the fact that after application to the District Court to compel answers, Kemart stipulated to a withdrawal of the motion and a resumption of the deposition. While appellee agreed to answer the questions, such agreement constituted no concession that the questions were proper. The record respecting these depositions and the objectionable questions is not entirely clear [R. A. 405-509], but even a casual reading of the record indicates that objection to them was well taken, as for example, where counsel for Kemart attempted to require the witness to interpret the patent document [R. A. 418-425, 427 *et seq.*]. Kemart could have urged penalties and sanctions pursuant to Rule 37 but did not. Judge

Mathes found that the two-day delay was not due to bad faith and did not injure Kemart [Findings of Fact 10; R. 29].

Kemart proposes that appellee misrepresented the scholastic abilities of its expert, Mr. Marx. The point is entirely collateral and has nothing to do with the case inasmuch as the case turned squarely on claim interpretation as a matter of law. Mr. Marx has made it very clear that instead of going to Dartmouth College he went to Clark School in Hanover where some of the Dartmouth faculty taught and that he early fell into the habit of exaggerating this phase of his schooling [R. 195-197]. This is much akin to the harmless exaggerations indulged in by some Menlo Junior College students in respect to Stanford University, and the comments of the District Court at the supplemental trial seem appropriate to dispose of any charge of maliciousness [R. 229-231]. Judge Mathes found the representation to be a matter of no material consequence either in the prosecution or defense in the action [Findings of Fact 11; R. 29].

Kemart suggests that appellee misrepresented the state of the prior art. Its charge in this regard is demonstrably erroneous and misleading. It seems to be bottomed on the proposition that a newspaper half-tone print [Exhibit J; R. A. 134] was not a very good half-tone print and that there existed better examples of half-tone prints in the prior art, such as Exhibits 79, 80 and 81 [R. 159-161; Exhibit 59; R. 168]. Entirely aside from the fact that this case neither in the trial court nor in this Court turned on the quality of those half-tone prints, Kemart's argument in respect to them completely misses the point of the Marx invention. The Marx patent was not urged by the District Court as valid because it provided a means for

creating half-tone prints better than the half-tone prints available in the prior art. Quite to the contrary, Mr. Marx carefully testified at the trial as follows:

“Q. Were ways to get the dots out of the highlight areas of a halftone reproduction totally unknown prior to your invention? A. Oh, no. There were a number of ways that people removed those dots.”
[R. A. 125]

He went on, moreover, to point out various means in the prior art for accomplishing the removal of the dots from the highlighted areas such as painting them out, carving them out, lens manipulation, masking and the like, and made the point that the value of the Marx invention was in avoiding these expensive, time-consuming operations [R. A. 125-129]. Indeed, Mr. Marx read from the history of the application leading to the grant of Kemart's own Berry Patent No. 2,395,986 the argument advanced by counsel for Kemart which described the prior art methods of making half-tone prints and pointed out the difficulties inherent in these methods. Mr. Marx agreed that the passage represented a fair statement of the problems which confronted the photoengravers art prior to his invention [R. A. 129-132].

Moreover, it is apparent that Judge Mathes understood Mr. Marx' point and understood it well, the District Court stating during the trial:

“The Court: As I understand the witness's position here, if it is material, he removes those dots or pattern of the screen from the highlight areas in a more efficient, more economical, and more desirable manner than was done in the prior art.” [R. A. 258].

In fact, Judge Mathes invited counsel for Kemart to produce, if he wished, his own examples [R. A. 256]. Such examples are Exhibits 79, 80, 81 and 59. These exhibits are utterly valueless because no evidence was produced by Kemart as to how they were made [R. 163, 186-188]. For all we know, they could have been made by painting out the highlighted dots, by carving them out, by lens manipulation or by other means. We may assume that whatever method was used to create them it was expensive, time-consuming and required the services of those most talented and expert in the art. Nothing about these exhibits or the testimony concerning them in any way weakens or impugns Mr. Marx' testimony that his invention rendered the removal of dots in highlights more economically feasible. Judge Mathes simply found that appellee did not materially misrepresent the state of the prior art [Findings of Fact 12; R. 29].

Kemart complains that following the entry of the decree of validity and infringement of the patent, appellee opposed the efforts of Kemart to be permitted a low supersedeas bond and opposed the efforts of Kemart to modify the injunction of the District Court. Judge Mathes found that the determination as to the amount of the supersedeas bond and as to the form of the injunction was by the Court [Findings of Fact 13; R. 29].

ARGUMENT.

In its argument, Kemart proposes that under Ohio law this is a libel case and that the law of Ohio is to the effect that a charge of patent infringement, later proven erroneous, renders the party making such a charge liable in damages without more. Kemart rejects any defense of privilege, absolute or qualified, and proposes that good faith has nothing to do with the matter. At the same time, and despite urging that the case is controlled by Ohio law and constitutes libel, Kemart proposes that this is a case of unfair competition under the Paris Convention and that the broad statement of principle therein set forth proscribing false allegations in the conduct of trade of a nature to discredit the establishment, the goods or services of a competitor, unimplemented by Congressional effectuation, imposes liability here. Finally, Kemart argues, despite Judge Mathes' findings of fact, that if bad faith and malice be needed to award damages and attorney's fees, they are present.

We respectfully submit that Kemart is wrong in all the above particulars.

1. This is a case not of personal libel but of unfair competition of a type sometimes called "disparagement of property" and sometimes called "trade libel". As such, good faith is an absolute defense to the cause and Ohio accords with general law in rejecting the concept of liability present such good faith.

2. Even if this case be treated as one of personal defamation under the Ohio law, Ohio is orthodox in allowing qualified privilege where the alleged libel is

published to interested parties; and where qualified privilege is found, Ohio requires a showing of actual malice before liability will be imposed.

3. The District Court found as a fact that the charge of infringement by appellee was qualified and that appellee acted in good faith and without malice; this record nowhere justifies an overturning of that finding.

4. The Paris Convention but sets forth a broad principle regarding disparagement of property, does not purport to set forth a code applicable to unfair competition cases of this nature before our domestic courts, and has never been implemented by Congressional action. On the contrary, Congressional action, subsequent to the Convention, merely substantiates the proposition that Congress never intended Article 10 Bis. 2° to set forth the entire law governing the disparagement of property phase of the law of unfair competition.

5. The District Court found as a fact that in the trial of this cause appellee evidenced no unfairness or bad faith and that neither the conduct of appellee nor any other equitable consideration makes it grossly unjust that Kemart should pay its own counsel fees. Nothing in this record justifies a determination that the District Court abused its discretion in refusing to award attorney's fees.

I.

The Instant Case Is a Case Not of Personal Libel but of Unfair Competition, and the Law of Ohio and General Law Holds Good Faith to Be an Absolute Defense.

The principal, and indeed only, case upon which Kemart directly relies is *Watson v. Trask* (1834), 6 Ohio 531, 27 Am. Dec. 271. As will be shown hereinafter, this venerable case, while a libel case, by no means holds that a charge of patent infringement, later determined to have been erroneous, lays the basis for damages without more. In that case, the defendant went far beyond a mere charge of patent infringement and published defamatory matter of a personal nature, which today, as then, would have rendered the defendant liable in damages. Since, however, the syllabus of *Watson v. Trask* states it to be libel to charge a man with infracting a patent, Kemart proposes the disposition of this case to be as simple as is the syllabus statement. The case was decided over one hundred years ago at a time well before the legal concept of unfair competition in business had matured. For this reason and because of the personal defamation present in the case, unfair competition was not discussed in the case. We submit that nothing in *Watson v. Trask* entitles Kemart to urge appellee's charge of infringement as other than unfair competition.

Since *Watson v. Trask* was a personal defamation case however, since among other things the defendant there falsely charged the plaintiff with patent infringement, and since subsequent Ohio cases have cited *Watson v. Trask* in personal defamation cases, Kemart reaches the conclusion that the case entitles it to label the complained of infringement charge by appellee as a libel, and having

reached this conclusion, Kemart assumes that the legal rights and duties of the parties should be tested as though this were a case involving prostitution, venereal disease or the like. It is submitted that in this Kemart fails to appreciate that we are here dealing with the property rights of business competitors, not personal defamation.

Nims, the great author on trademarks, unfair competition and conflicting rights in intangibles in *Unfair Competition and Trade-Marks*, Fourth Edition, Vol. II, §259, entitled "Difference Between Trade Libel And Personal Libel" at pages 836 and 837 clearly analyzes the distinction, stating:

"The essential differences between personal and trade libels and the reasons for requiring proof of special damage where trade disparagement (not personal libel) is charged, suggest the possibility that trade disparagement is not libel in the usual sense especially where it is directed against a competitor's business and goods, but is more accurately described as unfair competition. In considering American cases, therefore, it is helpful to bear in mind the difference between trade libels and personal or character libel. A libel of a man's personal reputation involves his good name. That vitally concerns his standing among men, and the repute of himself and his family in the community."

and

"False statements as to merchandise or trade are made for the purpose of getting a rival's trade away from him. They do not often involve any criticism of his character, impute to him any loathsome disease, or charge him with crime, or defect in character, in the sense in which such criticism could be construed as libel. To say of another falsely something 'which

may impair or hurt his trade or livelihood, as to call a tradesman a bankrupt, a physician a quack, or a lawyer a knave' undoubtedly is libel. To so speak of a person is to discredit him among his fellows, to deprive him of his neighbors' respect and confidence—to brand him as unfit to share in the life of those about him. To say falsely that a rival is infringing one's patent; that a newspaper is not of a class specified by statute for publication of certain advertising; or that plaintiff's safes may easily be opened,—is not a libel in the usual meaning of the term. It is a false and fraudulent statement, made to obtain unfairly the business of another."

Further, Nims in §264 at page 857 states: "To warrant interference, the circumstances attending an issue of circulars threatening litigation should indicate bad faith," and in §266 at page 861: "Claims of infringement by a trademark owner or a patentee cannot be considered a legal wrong unless made in bad faith."

The same distinction between personal defamation and disparagement of property rights is made in the Restatement. In the Restatement of the Law of Torts, Vol, III, Section 573, deals with personal defamation. Comment "g" thereunder is entitled "Disparagement of Goods Distinguished" and sets forth that a statement disparaging of another's products is not actionable under the rule stated in §573. As to disparagement, the Restatement in Section 647 provides that a rival claimant is privileged to disparage another's property in land, chattels or intangible things by an honest assertion of an inconsistent legally protected interest in himself, and in the same vein §773 of the Restatement provides that one may in good faith assert or threaten to protect property of his own which he believes

may otherwise be impaired or destroyed by the transactions of another. Neither the Restatement nor Nims imposes any qualification as to the privilege. Nice questions as to the interest or status of the recipient of the publication are not involved. It is only necessary that good faith be present.

And in Callman, *Unfair Competition and Trade-Marks*, Vol. I, Chapter 11, entitled "Disparagement of a Competitor and His Product" it is stated in §42.4 at page 594: "Bad faith is an essential element of unfair competition in such cases," and at page 595: "The mere fact that the patent is invalid or not infringed does not constitute bad faith."

Thus, the text writers and authors who have analyzed the problem are in accord. The consequences that flow from statements arising from disputes over property rights and business competition are not those that flow from personal defamation. While it is one thing to impugn a man's reputation for honesty, or a woman's chastity, it is quite another to actively protect one's legal rights in property. Public policy insists upon freedom in respect to the latter so long as bad faith is not present. In the instant case, we have a charge of patent infringement. That charge is unaccompanied by any personal imputation involving the Kemart Corporation or any of its employees. In such a situation, the courts of the United States are in accord that no tort is involved unless bad faith be shown. For example, in *D. E. Virtue v. Creamery Package Manufacturing Company* (1912), 227 U. S. 8, 57 L. Ed. 393, the Supreme Court said at page 38 (227 U. S.):

" . . . Patents would be of little value if infringers of them could not be notified of the consequences of

infringement, or proceeded against in the courts. Such action, considered by itself, cannot be said to be illegal. . . .”

The case was related to *Virtue v. Creamery Package Mfg. Co.*, 123 Minn. 17, 142 N. W. 1136, wherein it was stated:

“. . . Thus an assertion by defendant that he has some right, title, or interest in the property, made in an honest belief of its truth, defendant supposing that he is entitled to the interest he asserts, is qualifiedly privileged and no action for slander of title can be maintained, although the statements are in fact untrue. If defendant, believing himself to have an exclusive patent, issues a notice of an alleged infringement by plaintiff in good faith as a warning against an invasion of his rights, a mistake on his part as to the validity of his claim will not render him liable to an action.”

This Court states the rule in *Celite Corporation v. Dicalite Co.* (9 Cir. 1938), 96 F. 2d 242, cert. den. 305 U. S. 633, 83 L. Ed. 407, at page 250 (96 F. 2d):

“Bad faith is an essential element in the charge of unfair competition where such charge is based upon claims of patent infringement and threats to take action based upon such infringement. *Emack v. Kane*, C. C., 34 F. 46; *Alliance Securities Co. v. De Vilbiss Mfg. Co.*, 6 Cir., 41 F. 2d 668; *Oil Conserv. Eng. Co. v. Brooks Eng. Co.*, 6 Cir., 52 F. 2d 783, 785; *American Ball Co. v. Federal Cartridge Corp.*, 8 Cir., 70 F. 2d 579, 98 A. L. R. 665; *Art Metal Works v. Abraham & Straus*, 2 Cir., 70 F. 2d 641.

“There is nothing wrong in notifying infringers that they are guilty of infringement and are liable therefor. Indeed, such notice is required in some

fashion before suit for infringement can be maintained. 35 U. S. C. A. §49; *American Ball Co. v. Federal Cartridge Corp.*, supra, 70 F. 2d 579, at page 581, 98 A. L. R. 665."

The cases throughout the country dealing with this problem are many, but all subscribe to the rule that good faith is a complete defense to this type of action. *Eastern States Petroleum Co., Inc. v. Asiatic Petroleum Corporation, et al.* (2 Cir. 1939), 103 F. 2d 315; *Kaplan et al. v. Helenhart Novelty Corporation et al.* (2 Cir. 1950), 182 F. 2d 311; *Bechik Products, Inc. v. Flexible Products, Inc.* (2 Cir. 1955), 225 F. 2d 603; *A. B. Farquhar Co. Limited v. National Harrow Co.* (3 Cir. 1900), 102 F. 714; *United States Galvanizing & Plating Equipment Corporation v. Hanson-Van Winkle-Munning Co.* (4 Cir. 1939), 104 F. 2d 856. See *R. W. Eldridge Co., Inc. v. Southern Handkerchief Mfg. Co.* (D. C. W. D. S. C., 1938), 23 F. Supp. 179 and *Zephyr American Corporation v. Bates Mfg. Co.* (D. C. D. N. J., 1945), 59 F. Supp. 573.

In the *Kaplan* case at page 314 the Court of Appeals for the Second Circuit said:

" . . . it is not an actionable wrong for one in good faith to make plain to whomsoever he will that it is his purpose to insist upon what he believes to be his legal rights, even though he may misconceive what those rights are. *Eastern States Petroleum Co., Inc. v. Asiatic Petroleum Corporation*, 2 Cir., 103 F. 2d 315. And this has long been recognized in respect to patent rights. *Kelley v. Ypsilanti Dress-Stay Mfg. Co.*, C. C. E. D. Mich., 44 F. 19, 23, 10 L. R. A. 686; *Virtue v. Creamery Package Mfg. Co.*, 8 Cir., 179 F. 115, 120. As was observed when the judg-

ment in the case last mentioned was affirmed by the Supreme Court, 227 U. S. 8, 37-38, 33 S. Ct. 202, 208, 57 L. Ed. 393, 'Patents would be of little value if infringers of them could not be notified of the consequences of infringement * * *'."

And again in the *Bechik Products* case that same court said, at page 606:

"In *Kaplan v. Helenhart Novelty Corp.*, 2 Cir., 182 F. 2d 311, 314, we held that, '* * * It is not an actionable wrong for one in good faith to make plain to whomsoever he will that it is his purpose to insist upon what he believes to be his legal rights, even though he may misconceive what those rights are.' The owner of a patent has a right to threaten suits for infringement, provided he does so in good faith. . . ."

Similarly, the Court of Appeals for the Third Circuit in the *A. B. Farquhar Co. Limited* case stated at page 715:

"'Where notices are given or circulars distributed in good faith to warn against infringement, no wrong whatever is committed; . . .'".

It is seen, therefore, that the courts throughout the United States display unanimity in holding the law to be that charges of infringement absent bad faith provide no cause for damages. If bad faith be present, the problem is one of unfair competition residing in a disparagement of property. It is unfortunate that the tort is sometimes characterized as a trade libel, for the term "libel" implies concepts derived from the law of personal defamation, the application of which to a case such as the instant case lead only to unnecessary complication.

The law in the State of Ohio is no different than the law in the Ninth Circuit and throughout the rest of the nation. Since the unfair competition concept began to develop in our courts, the publication of charges of patent infringement has been held in Ohio, as in the rest of the country, to involve matters of unfair competition and to turn squarely on the factual question of whether or not good faith is present. This is not to say that *Watson v. Trask* has been overruled, but as will be shown hereinafter, *Watson v. Trask* simply constitutes no authority for the proposition advanced by Kemart that good faith has nothing to do with the liability of one who charges infringement under a patent but later loses in the patent litigation.

That Ohio now recognizes the type of cause asserted here is evident from *The Henry Gehring Co. v. McCue* (1926), 23 Ohio App. 281, 154 N. E. 171 and *McCue v. Wells* (1929), 121 Ohio St. 53, 166 N. E. 892. These cases expressly state the matter to be one of unfair competition. Similarly, causes such as are here asserted arising in Ohio but litigated in the Ohio District Courts and in the Sixth Circuit are dealt with as matters of unfair competition. *Oil Conservation Engineering Co. v. Brooks Engineering Co.* (6 Cir. 1931), 52 F. 2d 783; *Alliance Securities Co. v. De Vilbiss Mfg. Co.* (6 Cir. 1930), 41 F. 2d 668. See *Coats Loaders & Stackers, Inc. v. Robert D. Henderson et al.* (6 Cir. 1956), 233 F. 2d 915; *International Industries and Developments, Inc. v. Farbach Chemical Company, Inc.* (D. C. S. D. Ohio W. D., 1956), 145 F. Supp. 34; affirmed (6 Cir. 1957), 241 F. 2d 246.

There is no hint in these cases that the considerations such as cover personal defamation are to govern asserted liability on account of charges of patent infringement.

Rather, wherever good faith has been raised as a defense, the cases have simply turned on the factual determination of its presence or lack.

The law in Ohio is well set out in the *Alliance Securities* case wherein the charges of infringement were published in various newspapers, at page 670:

“We are aware of no ground upon which claims of infringement made by a patentee can be considered a legal wrong unless those claims are made in bad faith; that is maliciously. This bad faith may be made to appear in a variety of ways, but until it does appears the patentee has the right to notify all those whom he believes to be infringing that he will hold them for such liability as he may be able to establish; indeed, it has been said that it is his duty to do so, and it is apparent that under some circumstances he may lose rights if he does not do so. The subject is well covered by the comment of (then) District Judge Hand in *Asbestos Shingle, Slate & Sheathing Co. v. H. W. Johns-Manville Co.* (C. C.) 189 F. 611, 613. After reciting the holdings that an injunction against such claims by a patentee would not issue unless he was acting in bad faith, it is said: ‘Indeed, it is clear that unless the (patentee) did so act, it would be unjust to prevent him from advising users of his rights, etc.’ . . .”

The same view is present in the *Oil Conservation Engineering Co.* case wherein it is stated at page 785:

“We cannot agree with the conclusion below that the defendant had been guilty of any conduct properly classed as unfair competition. In a general way, the situation was the not uncommon one where the older manufacturer has patents which seem to cover the competitive article. The patents are presumed valid.

Litigation is expensive and to be avoided, if possible. Notices to the competitor that he is infringing, and perhaps to the manufacturer for the competitor, and to a limited number of his chief customers, are the normal procedure and not to be condemned, when characterized by good faith. . . .”

The *Oil Conservation Engineering Co.* case was cited and relied upon in the *Coats Loaders & Stackers* case in 1956, and recently in 1957 in the *International Industries and Developments* case the Court of Appeals for the Sixth Circuit again reiterated the bad faith rule, stating at page 248 (241 F. 2d):

“ . . . Moreover, the record supports the conclusion of the trial court that the issuance of the notice of infringement was done in implied malice in law, if not in actual malice, and in bad faith constituting unfair competition.”

Strangely enough, Kemart in its brief proposes that the *International Industries and Developments* case overrules the prior Sixth Circuit decisions. Neither the facts of the case nor any statement by the Court of Appeals justifies this conclusion. Referring to the Findings of Fact and Conclusions of Law set forth in the opinion of the District Court (145 F. Supp. 34) it will be seen that:

1. Plaintiff, without prior notice to defendant, mailed 8000 letters under the letterhead of a patent attorney to the “trade”, which letters had the effect of indicating that defendant was an infringer of plaintiff’s patents.

2. Plaintiff knew, or should have known, that defendant’s product did not in fact infringe his patents.

3. Plaintiff introduced no evidence to indicate that it had ever analyzed defendant's product, although it was a simple and easy matter to do so.

4. As a matter of fact plaintiff misled the District Court into dismissing defendant's motion for summary judgment on the unfounded grounds that the motion left "genuine issues of fact" which could only be determined at the trial.

5. Plaintiff failed at the trial to offer evidence or to produce any witnesses which raised or substantiated any disputed or genuine issues of fact.

6. The patent attorney who wrote the letter, 8000 copies of which were sent to the "trade", had no personal knowledge of the facts set forth in that letter.

7. Plaintiff's failure to introduce evidence at the trial to support its charge of infringement conclusively establishes bad faith and malice, first, in sending out the 8000 letters, and second, in filing the subject complaint.

8. As a matter of fact plaintiff engaged in willful, wanton and premeditated acts of unfair trade practice and unfair competition against defendant.

It will be seen that these findings established bad faith as thoroughly as bad faith could be established, and when the Court of Appeals stated that ". . . the record supports the conclusion of the trial court that the issuance of the notice of infringement was done . . . in bad faith constituting unfair competition" it presumably meant what it said. That the court added the term ". . . implied malice in law, if not in actual malice . . ." detracts

not a bit from the court's approval and reliance upon the findings of bad faith by the District Court. The dissent by Judge Stewart merely indicated that he was of the view that even the record before the court did not support the finding of bad faith. Certainly, the case did not turn upon differences between the majority and Judge Stewart as to the necessity of bad faith as a *sine qua non* of liability.

The simple fact is that no case in Ohio or elsewhere holds that a published charge of patent infringement, later judicially determined to be wrong, renders the patent owner liable in damages if that patent owner acted in good faith. Kemart urges that the *McCue* cases (*McCue v. Wells* and *Gehring v. McCue*, *supra*) stand for this proposition. It is idle to concern ourselves with the pleadings and briefs of the parties to that litigation, for the opinion of the Court of Appeals of Ohio in *Gehring v. McCue* shows that the court reversed a demurrer below on the ground that the allegations of the petition set forth acts and circumstances analagous to cases of successful recoveries because of malicious acts by way of litigation in the courts and alleged that the conduct of the defendant had no warrant or proof. The court merely ruled that bad faith had been sufficiently alleged. The opinion of the Supreme Court of the State of Ohio in *McCue v. Wells* simply reversed a damage award following the first appeal on the ground that the court had erroneously charged the jury to the effect that defendant was not claiming actual infringement as a defense. The court found it unnecessary to rule on the question of good or bad faith. The importance of both cases is that each treated the cause asserted as one to be adjudged according to the law of unfair competition.

We turn now to *Watson v. Trask* (1836), 6 Ohio 531, 27 Am. Dec. 271. Kemart proposes that *Watson v. Trask* requires that this Court accept the view that regardless of good faith, any party publishing a charge of infringement, which charge is later judicially determined to be erroneous, is liable in damages to the party accused to infringe. *Watson v. Trask* was not, however, an unfair competition case of the type set forth above, but rather was a personal defamation case and thus is not in point here. It provides no authority that would require that this Court depart from the general law, recognized in Ohio as elsewhere, and concur in Kemart's view. Further, even if it were to be conceded that the instant case should be disposed of under the Ohio law directed to personal defamation, we will point out in the ensuing section of this brief how *Watson v. Trask* does not deprive appellee of its claim of privilege.

In discussing *Watson v. Trask*, Kemart has neglected to recite the published libel and has neglected to set forth enough of the opinion to enable this Court to properly evaluate it. The publication was as follows:

“The public are cautioned against purchasing, making or vending the pretended patent right of one Watson to the patent bark mill, he having no right whatever to the same. The original patentees to said patent bark mill are Edward and John Trask, who have deeded their right in this state to the subscriber, who alone can and will dispose of the right to said mill in Ohio.”

“Isreal Trask”

“Edward and John Trask invented and put into operation in the year 1819 or 1820, a bark mill, and in the year 1821 obtained letters patent for the same. In the year 1822, Clinton Watson, by his own confession, saw and examined one of said mills, and, it is believed, called on the patentees for the purpose of procuring the right of vending same, which was not granted. Soon after, he commenced selling mills after this pattern, and still perseveres in his infringement of the right of said Trask, shielded from prosecution by his want of responsibility.”

“I. Trask”

The Supreme Court of Ohio laid down as the rule of law in Ohio at page 532:

“. . . A libel in reference to individual injury may be defined to be a false and malicious publication, against an individual, whether in print or in writing, or by pictures, with intent to injure his reputation, and expose him to public hatred, contempt, or ridicule.”

As to the particular publication the court said:

“. . . The publication is declared to be of the plaintiff in his business of maker and vendor of bark mills. It imputes to him the infraction of another's patent. This, if true, would subject him, and those purchasing and using his mills, to prosecution. Nothing could have a more direct tendency to the entire destruction of his business. It denies the plaintiff's right to deal in the subject of his occupation and asserts an adverse inconsistent right which he knew and acknowledged. It thus imputes to him falsehood, fraud, the want of capacity to confer a legal right by the sale of his manufactures. It does not stop there. It asserts, moreover, in direct terms, that he perseveres in this fraudulent and pirating trade upon the rights of the

Trasks, because he is 'shielded from prosecution by his want of responsibility'. If irresponsible to the inventor whose right he was charged with infringing, he was equally so to those who should purchase of him. The charge is, if you deal with this man you incur the risk of lawsuits for violating the rights of others, and he is insolvent, irresponsible to indemnify. Would not such a charge, if true, blacken a man's reputation, injure his business, expose him to hatred and contempt? In our understanding, the publication is unequivocally libelous."

This, it is submitted, is a far cry from holding that a naked charge of patent infringement constitutes a libel. The publication is characterized by three things. First, it charges patent infringement. Second, it charges, in stating that Watson by his own confession saw and examined one of the mills and called on the patentee for the purpose of procuring the rights of vending same, that Watson knew and acknowledged the right of the Trasks, implying that Watson was piratically operating absent even a color of right. Third, it charges, in stating that Watson was shielded from prosecution by his want of responsibility, that he was insolvent and irresponsible to indemnify.

The court did not treat these as separate libels. On the contrary and in accordance with the law of Ohio and elsewhere, it treated the publication as a whole. *Tappmeyer v. Journal-Republican Co.* (1919), 31 Ohio Dec. 32; *Shallenberger v. Scripps-Pub. Co.*, 17 Ohio Cir. Ct. (New Series) 546, affirmed 85 Ohio St. 492. And treating the publication as a whole, the court in its opinion in the language quoted above made it very clear that the publication qualified as personal defamation, namely, that it

was a false publication with intent to injure plaintiff's reputation and expose him to public hatred, contempt or ridicule. The court referred to the fact that the charge of patent infringement would have a direct tendency to injure the business of Watson. With this we have no argument with Kemart. The court further stated that the publication imputed to Watson falsehood and fraud, but nothing in the decision indicates that the court felt that the naked charge of infringement accomplished this. Rather, the court first specifically pointed out that the publication accused Watson of knowing of and acknowledging Trask's inconsistent right. The court then emphasized that the publication averred Watson to be shielded from prosecution by his want of responsibility and stated the charge to be that if a customer deal with Watson he incurs the risk of lawsuits for violating the rights of others although Watson is insolvent* and irresponsible to indemnify. Immediately thereafter the court asks whether or not such a charge would blacken a man's reputation, injure his business and expose him to hatred and contempt.

We agree with the Supreme Court of Ohio and say that of course it would, but we say emphatically that this was a finding of personal defamation since the very statement of the law of Ohio set forth by the court in *Watson v. Trask* constitutes a definition of personal defamation and nothing else. Kemart has suggested that the court's comments as to acknowledgment of the patent rights of the Trasks by Watson and the insolvency of Watson is but an independent ground for the decision in the case. Any careful reading of the case leads to the opposite conclusion. The case is a simple case involving personal defamation,

* See Nim's statement on pages 18-19 of this brief to the effect that this is personal defamation.

and it has never been cited in any case in Ohio or elsewhere in the United States as standing for something else. All the Ohio cases citing *Watson v. Trask* refer to it as laying down the law in Ohio governing personal defamation. Thus, *Watson v. Trask* detracts not one bit from the force and effect of the previously set out rule governing unfair competition, whether characterized as trade libel, disparagement of property, or otherwise. To such a charge good faith is a defense in Ohio as elsewhere.

Kemart, in its brief, appears to concede by its silence the proposition that *Watson v. Trask* has never been cited in a case in Ohio as authority for the proposition that a naked charge of patent infringement rendered in good faith constitutes actionable libel. They do, however, point to the headnote in the case and its statement that it is a libel to charge a man with infringing a patent. Additionally, they point to three other Ohio cases as consistent with what they propose to be the rule of *Watson v. Trask*. *Mason v. Stacey & Carroll* (1879), 7 Dec. Rep. 567, 3 Bull. 1100; *Joseph v. Christy* (1882), 8 Dec. Rep. 476, 8 Bull. 190; and *Dopp v. Doll* (1885), 9 Dec. Rep. 428, 13 Bull. 335. These cases do not involve Kemart's rule at all and have nothing to do with good faith or lack thereof. As for the headnote, we learn early in the study of law that headnotes are but traps for the unwary. The headnote of *Watson v. Trask* read out of context furnishes an excellent example of such a trap. Such a headnote, standing alone, fails to supply us with anything approaching a definitive rule of law. In contrast, *Corpus Juris Secundum* at 35 C. J. S. 68 cites *Watson v. Trask* as holding that a charge of patent infringement has been held to be libelous where it tends to impeach one's reputation and expose him to public

hatred, contempt and ridicule. It is appellee's thesis, therefore, that *Watson v. Trask* is no more and no less than a personal defamation case, and that as far as unfair competition is concerned, the law of Ohio is as it is elsewhere. The good faith and lack of malice manifested by appellee constitutes an absolute defense to Kemart's charge.

Were it necessary otherwise to distinguish the instant case from *Watson v. Trask* the task is not difficult. Even were the distinction between personal defamation and unfair competition not recognizable in Ohio because of *Watson v. Trask*, express malice and bad faith are apparent from the publication there for there was an accusation, not of simple patent infringement, but of knowing patent infringement by one who was said to have conceded the patent right of the defendant and who was said to be insolvent and irresponsible to indemnify. Consequently, had the defense of good faith been raised, it could not have prevailed for it did not exist. The simple fact is that *Watson v. Trask* does not hold good faith unavailable as a defense to a charge of having published a notice of patent infringement. As demonstrated hereinabove, the defense is good throughout the land. It is available in this case and it has been established in this case.

II.

The Defense of Qualified Privilege Is Available in Ohio as Elsewhere, Even Though This Case Be Treated as One Governed by the Ohio Law of Personal Defamation.

We have shown that the instant case sounds in unfair competition and that according to the law of Ohio and elsewhere good faith is an absolute defense to the charge levelled here, *Watson v. Trask* notwithstanding. Kemart, however, would have the case decided on the basis of the rules governing libel constituting personal defamation. In this, Kemart's argument asserts that under the libel laws of the State of Ohio, the defense of privilege does not exist. To support its view, Kemart argues that neither the Ohio case law, the Ohio statutory law, nor the Ohio constitution recognizes good faith as a defense to a charge of libel.

We submit that Kemart entirely misconceives the law of Ohio as regards libel, and that in this regard the law of Ohio since the middle of the last century is no different than the law throughout the rest of the country. Briefly stated, a libel presumes legal or implied malice, but such presumption is rebutted if the libel be privileged. If the privilege be absolute, no liability exists; if the privilege be but qualified, liability occurs only if actual or express malice be proved.

The law in Ohio is well set out in 25 Ohio Jur., Libel and Slander, §56, at pages 202 *et seq.*:

“Actions for libel and slander have always been subject to one principle; defamatory statements, though they may be actionable on ordinary occasions, nevertheless are not actionable when they are made upon certain occasions; it is not that the

statements constituting libel and slander are subject to a defense, but the principle is that statements, made on a privileged occasion, from the very moment they are made, do not constitute libel or slander of which the law takes notice."

This quotation is in general taken from the case of *Liles v. Gaster* (1885), 42 Ohio St. 631, at page 636. The court further said at the same page:

"Malice is either express or implied. If the occasion is such that the statement is privileged, the presumption of legal or implied malice is rebutted, and the burden is on the plaintiff to aver and prove malice in fact, or express malice . . ."

Quoting again from 25 Ohio Jur., §69, at page 213, it is said:

"Publications having a qualified privilege are more numerous than those of absolute privilege. Publications qualifiedly privileged are those where the privilege arises out of the circumstances of the publication . . .

"It is necessary to the plea of privilege that there be an absence of malice in the publication. The matter being a privileged communication, only the legal presumption of malice is taken away; it is no answer to the charge of publishing defamatory matter which is false in fact, and published maliciously, and not bona fide, or from a proper motive. The protection which the occasion for the publication might otherwise afford, ceases, when it is shown, that it has been abused for malicious purposes or from improper motives, and the responsibility for any false and defamatory statements is the same as in other cases. Good faith in the publication and the exercise of reasonable diligence to ascertain the truth of its

statements are essential to the privilege . . . When the occasion is such that the statements made by one concerning another come under the head of privileged communications, it is a sufficient defense to an action for libel or slander that the statements were made in good faith, with a reasonable and honest belief in their truth, . . . The rule is that if the occasion be such as repels the presumption of malice, the communication is privileged, and the plaintiff must then, if he can, give evidence of malice, and if he gives no such evidence, it is the office of the judge to direct a nonsuit, or a verdict for the defendant."

Again, at §81, at page 223, it is said:

"A communication is qualifiedly privileged when made in good faith in answer to one having an interest in the information sought, . . ."

The cases fully substantiate the conclusions drawn in Ohio Jurisprudence that the case law of Ohio affords, in libel actions, the defendant a plea of qualified privilege.

In *Wahle v. Cincinnati Gazette Co.* (1879), 6 Dec. Rep. 709, 4 Bull. 61, at page 710 (6 Dec. Rep.) it is said:

"When the occasion is such that the statements made by one concerning another come under the head of privileged communications, it is a sufficient defense to an action for libel or slander that the statements were made in good faith, with a reasonable and honest belief in their truth . . ."

In *Blair v. Burroughs* (1890), 23 Bull. 180, an objection was made to a charge to the jury. The judgment of the Circuit Court, affirmed by the Supreme Court, was that there was no error in the charge of the Court of Common Pleas to the jury on the trial of the cause. The

following is part of the charge to the jury, which the Supreme Court of the State of Ohio said was not erroneous:

“Malice may be expressed or implied. Express malice is active malice, ill will, hatred or revenge, or it may be a reckless or wanton disregard of the rights of another. And implied malice is the inference of law arising from facts which are shown to exist . . . but this inference of law may be rebutted, and this brings us to the question of privileged communications . . .

“A privileged communication is one made to a person who has an interest in knowing what is thus communicated, made privately, without unnecessary publication, and of such facts as the person to whom the communication is made has an interest in knowing. . . .”

In *The Post Publishing Co. v. Moloney* (1893), 50 Ohio St. 71, 33 N. E. 921, at page 84 (50 Ohio St.), it is said:

“ . . . Whether it (a publication containing libelous words) be privileged, or not, must depend upon the circumstances of the publication, as well as the language employed. Writers upon the subject, include all privileged publications within two classes; those which are absolutely privileged, and those in which the privilege is but qualified. There are not many of the first class, nor is it desirable there should be . . . Publications having a qualified privilege are more numerous, and are those where the privilege arises out of the circumstances of the publication. Good faith in the publication, and the exercise of reasonable diligence to ascertain the truth of its statements are essential to the privilege, which is said to be

qualified because the plaintiff may recover, if actual malice be shown, notwithstanding the existence of the circumstances which would otherwise make the publication a privileged one. Included in this class, are reports . . . and communications, which one person is under an obligation to make to another, or in the subject matter of which they have mutual interests.”

Again, in *Rumseyer v. Sheehan*, Ohio Court of Appeals, Lucas Co.nty, 1923, 1 Ohio L. Abs. 233, at page 234, it is said:

“Statements made in good faith . . . are privileged . . .

“A denial . . . of the exact words alleged is not inconsistent with the plea of conditional privilege . . . Privilege does not depend upon the words used but upon the place and circumstances under which they were used.”

In *Harris v. Reams* (1860), 2 Dec. Rep. 281, at page 282, it is said:

“A plaintiff can only recover for a libel or slander when the words are *false* and *malicious*, either in law or fact.”

After discussing the *per se* doctrine, the court said:

“. . . There is a large class of ‘privileged communications,’ which, though false, are *prima facie* in good faith; and for which an injured party has no redress, except on proof of *express malice*.”

In *How v. Bodman* (1855), 12 Dec. Rep. 272, it is said:

“When defamatory matter is published, which is false in fact, malice is a presumption of law. This

presumption of malice is rebutted, if it appears from an examination of the matter published, that it falls within the description of what are called privileged communications . . . But, though the matter might be considered as privileged, this would be no answer to the action, if in its publication there was malice in fact. The matter being a privileged communication, only takes away the legal presumption of malice; it is no answer to the charge of publishing defamatory matter, which is false in fact, and published maliciously, and not *bona fide*, or from a proper motive. The protection which the occasion for the publication might otherwise afford, ceases, when it is shown, that it has been abused for malicious purposes . . .”

And as recently as 1952 in *De Angelo v. W. T. Grant Co.*, Ohio Appeals (8 Dist. 1952), 64 Abs. 366, 111 N. E. 2d 773, which was a slander action involving an employer and employee, the court recognized the existence of the qualified privilege and held that in such a case, in order to recover, the plaintiff would have to show express malice, which was a question of fact.

In discussing *Watson v. Trask* and the other cases cited by Kemart, we have shown that a naked charge of infringement, later proved erroneous, is not, under the Ohio law, a personal libel in connection with which malice will be presumed. Even were we to concede Kemart's point however, it is clear that Kemart has misconceived the legal effect of implied malice in a libel action and has lost sight of the fact that qualified privilege removes the presumption and requires that the allegedly libeled party prove actual malice and bad faith. The District Court below found as a fact that the publication in Ohio was made to interested persons, and further found as a fact

that the publication was made in good faith [Findings of Fact 1-D, 2, 6, 7 and 8; R. 27-29]. As will be shown later, no justification exists in the instant record for ignoring these findings.

While Kemart argues otherwise, neither case, statute nor constitution in Ohio denies to appellee its right to show qualified privilege, good faith and lack of malice. Certainly, *Watson v. Trask* does not support Kemart's position, for in *Watson v. Trask* the defense of privilege was not raised, and had it been raised, it could not have prevailed for good faith was manifestly absent there.

Heimlich v. Dispatch Printing Co. (1916), 18 Ohio N. P. (N. S.) 505, merely stated the rule urged by appellee. *Union Central Life Ins. Co. v. Mutual Benefit Life Ins. Co. et al.* (1877), 5 Dec. Rep. 521, 2 Bull. 269, has nothing to do with privilege or the effect of privilege in rebutting legally implied malice. *Kahn v. Cincinnati Times-Star* (1890), 8 N. P. 616, 10 Ohio Dec. 599, affirmed 1895, 52 Ohio St. 662, 44 N. E. 1132; *Cincinnati St. Ry. Co. v. Cincinnati Daily Tribune Co.* (1900), 10 Ohio Dec. 281; and *Peer v. Hoiles* (1925), 3 Ohio L. Abs. 653 are to the same effect. *Mulcahy v. Deitrick* (1931), 39 Ohio App. 65, 176 N. E. 481 and *Westropp v. The E. W. Scripps Co.* (1947), 148 Ohio St. 365, 74 N. E. 2d 340 both involved the determination of whether or not the plaintiff must prove actual malice in the first instance. Neither involved any determination of the effect of a showing of qualified privilege to remove the implication of malice.

We have discussed the other Ohio cases cited by Kemart in the foregoing section of this brief respecting unfair competition. These cases in no way support Kemart's argument. No more do *Metro-Goldwyn-Mayer*

Corp. v. Fear (9 Cir. 1939), 104 F. 2d 892; *American Ball Co. v. Federal Cartridge Corporation et al.* (8 Cir. 1934), 70 F. 2d 579; and *Emack v. Kane et al.* (C. C. N. D. Ill. 1888), 34 Fed. 46. These are cases of unfair competition and are in entire accord with the rule that bad faith must be shown before liability ensues because of a charge of patent infringement. The latter two cases are in fact cited by this Court as supporting the rule of good faith announced in *Celite Corporation v. Dicalite Co.*, *supra*.

In addition to citing the cases above, Kemart maintains that the doctrine of qualified privilege does not exist in Ohio because of the Ohio statutes and the Ohio constitution. This despite the incontrovertible fact that the Ohio courts have recognized the doctrine for one hundred years.

Kemart notes Section 2901.37 of the Ohio Revised Code and the alternative use of the words "false or malicious" in this statute. The statute does not deal with privilege, does not purport to abolish privilege, and is a criminal statute. Moreover, as stated in 37 Ohio Jur. Statutes, §420 at page 744:

"It is a well-settled general rule, recognized by the General Code, that a strict construction is to be accorded to penal statutes . . ."

Accordingly, a strict interpretation must be applied to the word "false." Such an interpretation would require that it mean something more than untrue or mistaken. See *Ratterman v. Ingalls* (1891), 48 Ohio St. 468, 28 N. E. 168; *Touts v. The State of Ohio* (1925), 113 Ohio St. 450, 149 N. E. 551; and *Heindel v. United States* (6 Cir. 1945) 150 F. 2d 493.

Kemart also cites Sections 2739.02, 2317.04 and 2317.05 and Article 1, Section 11 of the Ohio Constitution. By no rule of statutory construction could these provisions be held to include all possible defenses to an action for libel, but Kemart argues that the effect of the statutes and the constitution is to abolish common law privilege. To the contrary, the Supreme Court of Ohio, in discussing privilege and Article 1, Section 11 of the Ohio Constitution, states in *Cleveland Leader Printing Co. v. Nethersole* (1911), 84 Ohio St. 118, 95 N. E. 735, at page 133 (84 Ohio St.):

“A not unimportant consideration pertinent to the general subject is that of so-called privilege. It rests upon that clause of our Bill of Rights, section 11, which provides: ‘Every citizen may freely speak, write and publish his sentiments on all subjects, being responsible for the abuse of the right; and no law shall be passed to restrain or abridge the liberty of speech, or of the press.’ Then follows that which relates to criminal prosecutions for libel, . . . the liberty thus given is to publish truth with good motives and for justifiable ends . . . Not that this implies a distinction as to limitation of right between a newspaper publisher and any other individual, for the publisher is not, at common law, privileged as such in the dissemination of news, but is liable for what he publishes in the same manner as any other individual. But it is not to be inferred that the publisher is subject to any severe rule as to liability . . . Hence it follows, as held in *Henwood v. Harrison*, 7 L. R. C. P., 606, that ‘the fair and honest discussion of or comments upon a matter of public interest is in point of law privileged, and is not the subject of an action, unless the plaintiff can establish malice.’ ”

Kemart attempts to buttress its argument that privilege does not exist in Ohio by urging that the common law is nonexistent there. As to this, in 9 Ohio Jur. 2d, Common Law, Section 1, page 555, it is said:

“The common law of England, when not inconsistent with the genius and spirit of Ohio institutions, and thus rendered inapplicable by situation and circumstances, has been acknowledged by the courts of Ohio as furnishing the rules of their decisions. And equally important, it is the basis of many statutes of the state, and it is to the common law we must look for legal definitions and judicial ideas in interpreting the federal and Ohio constitutions”

Kemart, stating that the common law doctrine of qualified privilege is, according to Ohio law, neither “sound or wholesome” calls attention to *Westlake v. Westlake* (1878), 34 Ohio St. 621, and *The Post Publishing Co. v. Moloney* (1893), 50 Ohio St. 71, 33 N. E. 921. These cases have nothing to do with the subject in point. In the first of these cases the court, stating it to be the law of the State of Ohio that words imputing a want of chastity to a woman, married or single, are actionable *per se*, refers to the previous unsatisfactory state of the common law in reference to the rights of the wife; and the second holds that a person offering his services to the public as a police officer is not deemed to consent to all imputations, however false or defamatory. Neither involved the defense of qualified privilege and neither purported to stand for the proposition that common law defenses cannot exist in Ohio. *Meyer v.*

Parr (1941), 69 Ohio App. 344, 37 N. E. 2d 637, involved absolute privilege, not qualified privilege. We may agree with *Kemart* that if absolute privileges are to be extended in Ohio, this should be done by the legislature. This is not to say that Ohio does not recognize the doctrine of qualified privilege. That Ohio does is made plain by one hundred years of decisions.

We submit that *Kemart* has been unable to point out any case holding that under Ohio law good faith is not a complete answer in a case where damages are asked because of a charge of patent infringement, later proved mistaken. We further submit that *Kemart* has been unable to point out any case holding that under Ohio law the defense of qualified privilege is unavailable in such a case. Treating the instant case as one of unfair competition, we have shown that the Ohio law, as elsewhere, recognizes bad faith to be a *sine qua non* of the cause of action. Treating the instant case as one governed by the personal defamation laws of Ohio we have shown that where, as here, the publication is to interested parties, a qualified privilege exists which rebuts any presumption of implied malice or bad faith, and that to prevail, *Kemart* must prove actual malice and bad faith.

III.

The Finding by the District Court That Appellee Acted in Good Faith and Without Malice and That the Publication of the Charge of Infringement Was Made to Interested Parties and Was Thus Qualifiedly Privileged, Should Not Be Overturned.

We now turn to the issue of fact upon which the decision below turned. Despite Kemart's argument to the contrary, Judge Mathes found unequivocally that appellee in levelling its charge of infringement acted in good faith and without malice. In Finding of Fact 1-D, Judge Mathes stated [R. 27]:

"Prior to commencement of the above entitled action, defendant reasonably believed that Marx United States Letters Patent No. 2,191,939 was valid and that it was infringed by the process of plaintiff."

In Finding of Fact 2, he said [R. 27]:

"This belief was based upon the opinion of experienced, although interested, patent counsel and not upon careless ascertainment of defendant's patent rights."

In Finding of Fact 6, Judge Mathes determined [R. 28]:

"The publications by defendant were for the purpose and with the intent on the part of defendant to defend its own patent interests, rather than to injure plaintiff's business."

And in Finding of Fact 8, he said [R. 28, 29]:

"Defendant's out-of-court publications of the charge of infringement, since determined to be false,

were made at a time when defendant reasonably believed the charge to be true, and were made in good faith and without malice, and were made to interested persons.”

It is unnecessary to cite the many decisions of this Court bearing on the binding effect of the findings of fact made by a District Court, the decision of which is on review. Unless the findings be clearly erroneous and not supported by substantial evidence, they must be accepted. Indeed, it would appear that on an issue such as good or bad faith, it is especially important that the findings of the trier of fact be accepted. See *Reserve Life Ins. Co. v. Simpson* (9 Cir. 1953), 206 F. 2d 389. Judge Mathes has had this case since its inception. Because of the assignment system in the Southern District of California, he was in charge of the case during the pleading stages, during the preliminary motion stages, during the discovery stages, and at the trial. At the trial he was able to observe the conduct and demeanor of counsel for both sides and the conduct and demeanor of the witnesses for both sides. He conducted proceedings as regards the injunction and the supersedeas bond following his original decision. It was to Judge Mathes that the case was returned after reversal by this Court on the question of infringement. Again, Judge Mathes heard argument by counsel for both sides on the questions of costs, attorney's fees, and Kemart's claim for damages. Finally, when the case was returned to him again he conducted a supplementary trial on the latter issue and on attorney's fees and was again able to observe counsel and the witnesses whereby to evaluate the *bona fides* of the contending parties.

Kemart, however, challenges those findings and would have this Court, on the cold record before it, determine that they should be ignored, asserting that either appellee levelled its charge of infringement at Kemart recklessly or wantonly or knew the charge to be false. We submit that far from lacking substantial evidence to sustain Judge Mathes' findings, the record in this case is convincing to the effect that appellee was entirely justified in making its charge.

The record shows that before ever appellee approached Kemart, it not only had obtained a written opinion from Mr. McCaleb, its patent lawyer, who ultimately tried the patent case and who was himself technically able to tell Mr. Marx of appellee about the Kemart process, but that Mr. McCaleb, Mr. Marx and Mr. Pensinger had discussed Kemart's infringement in Chicago where Mr. McCaleb also gave as his opinion the fact that infringement existed. At that time Mr. Marx himself was familiar with the Berry patents which described the Kemart process, had studied them, knew what the Kemart process constituted, and was of the opinion himself that the Kemart process infringed [R. 176-179, 191, 192; Exhibit RR; R. 287]. Further, as the record and these proceedings show, there was never any doubt as to the real issue in the case or as to the nature of the Marx process and the Kemart process. Kemart understood the processes, appellee understood them, and Judge Mathes understood them. The only question was whether or not the Marx patent claims should be interpreted to cover all processes wherein ultra-violet light illuminated the copy, or whether the claims should be restricted to reflecting such ultra-violet light to the camera so as not to include the Kemart process wherein the ultra-violet light caused fluorescent light to pass

to the camera [R. A. 275-277, 635-659]. On appeal from the original trial, this Court said in *Kemart Corporation v. Printing Arts Research Laboratories, Inc.* (9 Cir. 1953), 201 F. 2d 624 at pages 627 and 628:

“ . . . The testimony in this case was largely expository and descriptive of the elements and operation of the two processes and was not disputed.”

In its opinion, this Court made no factual determination contrary to those of Judge Mathes, but rather concluded as a matter of law that the Marx patent claims should be narrowly construed to free the Kemart process wherein fluorescent light rather than ultra-violet light passed from copy to camera.

Kemart, however, not denying that substantial evidence exists to support Judge Mathes' findings and lacking any positive evidence whatsoever of bad faith, points to certain fragmentary bits of evidence from which it would have this Court infer that appellee charged infringement in bad faith. For example, Kemart observes that Mr. McCaleb was president of appellee and from this proposes, in effect, that appellee acted in bad faith in relying upon his advice, supporting its contention by observing that no court in Ohio has held advice of counsel and particularly interested counsel as a defense to a charge of defamation. The difficulty with Kemart's position is that appellee does not defend this case on the ground of advice of counsel as a matter of law. The determination of whether appellee reasonably and in good faith believed its patent to be infringed is a question of fact decided adversely to Kemart by the District Court in view of all the evidence at the trial. There is nothing in the Ohio law or in the cases cited by Kemart that would justify this Court in determining as a matter of law

that Mr. McCaleb's position as president of appellee made mandatory a finding of bad faith.

As a further example, Kemart observes that Mr. Marx instructed Mr. McCaleb to obtain proof of infringement and other information prerequisite to the filing of a suit for direct infringement against some representative user of the Kemart process [R. 147]. These instructions constitute no admission whatsoever that appellee was not familiar with the Kemart process. Knowing how a process operates and preparing formal proofs for use in litigation to show its operation by an incipient defendant are two entirely different things.

As another example, Kemart observes that Mr. Marx on deposition stated that he was only familiar with some phases of the Kemart process; that he had not seen any copy of what purported to be Kemart copy; that the Kemart process reflected ultra-violet light from the drawing; and that it was not until the suit that he actually practiced the Kemart process in accordance with the Kemart literature and materials [R. A. 172, 175, 494, 502]. Judge Mathes did not draw Kemart's desired inference from this testimony, but on the contrary after observing Mr. Marx and Mr. McCaleb at the trial believed Mr. Marx when he testified before him that Mr. McCaleb was technically able to tell Mr. Marx about the Kemart process and that Mr. Marx knew what the Kemart process constituted from the Berry patents [R. 178, 179, 191, 192]. Further, whether or not Mr. Marx had seen any Kemart copy and whether or not he knew that fluorescent light passed from the Kemart copy to the camera is immaterial. The Marx patent did not purport to cover the product of the Marx process. It covered the process itself, and it was, and throughout this litiga-

tion has been, appellee's contention that so long as ultra-violet light only was used to illuminate the Kemart copy, the Kemart process infringed. That claims 5 and 7 were eliminated from the original complaint is likewise immaterial, for these claims are specifically limited to the reflected ultra-violet light.

Finally, Kemart objects to the failure in the charge of infringement to distinguish between the process taught by Kemart in its Berry 2,395,985 patent and its Berry 2,395,986 patent. It is submitted that such a distinction would mean nothing to the trade who knew the process offered by Kemart as the "Kemart Process" [Petition for a Declaratory Judgment, Para. 4; R. 4].

None of the aforesaid furnishes sufficient ground for the conclusion that Judge Mathes' findings on good faith are not supported by substantial evidence. Kemart merely proposes inferences and deductions which Judge Mathes, after having had the opportunity to observe witnesses and counsel, refused to accept. Hence, his findings of good faith must be sustained. Since both the Ohio and general unfair competition laws recognize the defense of good faith, and since this is an unfair competition case, Judge Mathes' refusal to find liability should be sustained.

Recognizing, however, that Kemart now argues this case as a personal defamation case for the purpose of applying the Ohio law of personal libel, Judge Mathes made a further finding. In Finding of Fact 7 [R. 28] Judge Mathes determined:

"Defendant's publications were directed to the same interested persons to whom plaintiff's publications were directed, namely a consultant to persons in the photo-engraving field; possible infringers and

contributory infringers; and the Executive Secretary of the photo-engraving trade association having an official interest in conflicts among members.”

Concluding as a matter of law that Ohio recognizes, as demonstrated above, the doctrine of qualified privilege [Conclusion of Law 6; R. 31], Judge Mathes therefore ruled that even tested in accord with the Ohio laws of personal defamation, Kemart’s claim for damages must fail. Kemart does not appear to urge error on the part of Judge Mathes in finding the complained of Ohio publication to have been to interested persons. But Kemart in its brief does urge that the District Court erred in finding justification in Kemart’s own publications, objecting to Findings of Fact 4, 5 and 7 [R. 28].

Appellee has offered no plea of justification in the instant case for none is necessary. These findings merely provide additional support for the ultimate findings of good faith. As we pointed out previously, the letter charging infringement Exhibit 29 was first published by Mr. Adams of Kemart to Joe Mertle, found in Findings of Fact 7 to be a consultant to people in the photoengraving industry, not a Kemart employee [R. A. 321; R. 96]. It was in response to Mr. Mertle’s questioning that Mr. Marx of appellee showed the letter to Mr. Mertle, and the letter was also shown to Mr. Flader, executive secretary of the Photoengraving Trade Association, and to Messrs. Schmidt and Latimer of the Pitman Company, suppliers to appellee and to Kemart, as the result of questions directed to Mr. Marx about the potential patent litigation [R. A. 321; R. 95, 96, 136-141].

As regards the publication in the trade magazine, the Photoengravers Bulletin, we have shown that nothing was

done by appellee until after the letter, Exhibit 60, which set forth appellee's charge of infringement, was sent out to the entire trade by Mr. Adams of Kemart and after Mr. Adams had caused to be published in the same Photo-engravers Bulletin the same charge [R. 97-99; Exhibit 60; R. 265-267; Exhibit NN; R. 284-287]*. Appellee's subsequent publications in the same Bulletin, Exhibits 34 and 74, added nothing so far as the objected-to charge of infringement already published by Kemart is concerned. As found by Judge Mathes they were for the purpose and with the intent to defend appellee's own patent interests [Finding of Fact 6; R. 28; R. A. 218; Exhibit 34; R. 263-265; Exhibit 74; R. 282].

There is thus no necessity for injecting the doctrine of justification into this lawsuit. This is not a matter of the trading of slanderous statements in the newspapers as occurred in the cases cited on this point by Kemart. Rather, appellee did no more than Kemart had already done, namely, set forth the charge of infringement in a trade publication.

We submit, therefore, that whether tested by the Ohio and general laws of unfair competition or by the Ohio law of personal defamation, Kemart's claim for damages must fail. If treated as a cause for unfair competition, the good faith found by Judge Mathes is an absolute defense; if treated as a libel under Ohio law, the libel is qualifiedly privileged and Kemart has failed to prove actual bad faith and malice.

*The legal effect of these publications in any event would not be governed by Ohio law but rather by the general law.

IV.

The Paris Convention Is Not Applicable Here.

After the entry of final judgment in the District Court from which judgment this appeal is taken, Kemart, pursuant to motion under Rule 60 (b) of the Federal Rules of Civil Procedure, for the first time advanced the theory that a broad statement of principle present in the Paris Convention supplants and obliterates not only Ohio law but all the law, state and federal, which deals with the problem of the effect of a charge of infringement, later judicially determined to have been erroneous. Despite the trial, argument, and briefing of its cause on the theory that the case should be governed by the personal defamation law of the State of Ohio, Kemart thus came about full circle, relabeled its asserted cause a cause for unfair competition, and proposed that the Paris Convention, entitled "The Convention for the Protection of Industrial Property of the Union of Paris" (53 Stats. 1748) rendered appellee liable under the constitutional treaty-making power of the Congress.

The Paris Convention is over seventy-five years old and states in Article 10 Bis. (47 Stats. 1807) promulgated in 1925 that among those things which "are to be forbidden . . ." are:

"2° False allegations in the conduct of trade of a nature to discredit the establishment, the goods or the services of a competitor."

It is this language which Kemart urges entirely supplants the law of all the States as respects unfair competition. Taken at its face value, this general language but sets forth a general principle, with which principle no American court, and certainly not this Court, has ever

disagreed. It falls far short, however, of evidencing any intent that would upset the law upon which the decision below is bottomed for the language simply does not provide expressly or by implication that the defense historically recognized in American law to a charge of unfair competition shall be abolished. This would seem obvious in view of the multitude of American unfair competition cases decided since the Convention was readopted in 1934, in which cases Kemart's radical application of that treaty has never been even suggested.

Judge Mathes denied Kemart's motion and we consider his decision to be absolutely compelled by history. Kemart's argument would deny our fundamental concept of *stare decisis*. For seventy-five years since the Paris Convention and indeed since long before that, our concepts of the rights and obligations of those engaged in competitive commerce have been developing and evolving. In the more than twenty years since the readoption of the Convention, case after case involving erroneous charges of patent infringement have been decided by our courts. If Kemart's thesis be correct, this Court was either wrong or oblivious in *Celite Corporation v. Dicalite Co.* (9 Cir. 1938), 96 F. 2d 242. So also were the Courts of Appeals for the Second, Fourth, Sixth, and Eighth Circuits in the cases cited previously in this brief. So also were the various State Courts that since 1934 have ruled on the point at issue. The remarkable result urged for by Kemart cannot be endorsed absent some specific instruction within the Convention which would effectuate such a result. No such instruction is present therein for the Convention merely sets forth generally that with which we may all agree.

We may assume that no special legislation in the United States was necessary to make the Convention effective

here, but this is far from conceding that Article 10 Bis. of the Convention can reach the result argued for by Kemart absent some effectuation by Congress.

As stated in *Vanity Fair Mills, Inc. v. The T. Eaton Co., Limited and John David Eaton* (2 Cir. 1956), 234 F. 2d 633 at page 640:

“The International Convention is essentially a compact between the various member countries to accord in their own countries to citizens of the other contracting parties trade-mark and other rights comparable to those accorded their own citizens by their domestic law. The underlying principle is that foreign nationals should be given the same treatment in each of the member countries as that country makes available to its own citizens. In addition, the Convention sought to create uniformity in certain respects by obligating each member nation ‘to assure to nationals of countries of the Union an effective protection against unfair competition.’

“The Convention is not premised upon the idea that the trade-mark and related laws of each member nation shall be given extraterritorial application, but on exactly the converse principle that each nation’s law shall have only territorial application. Thus a foreign national of a member nation using his trade-mark in commerce in the United States is accorded extensive protection here against infringement and other types of unfair competition by virtue of United States membership in the Convention. *But that protection has its source in, and is subject to the limitations of, American law, not the law of the foreign national’s own country. . . .*” (italics ours)

Even the language of the Convention itself evidences the intent that Article 10 Bis., if to abolish existing

domestic law, shall be implemented by Congress. Referring to the Convention, Article 10 Ter. provides:

“1. The countries of the Union undertake to assure to persons within the jurisdiction of other countries of the Union appropriate legal remedies to repress effectively all acts referred to in Articles 9, 10, and 10 *bis*.

“2. They undertake, further, to provide measures to permit syndicates and associates which represent industrialists, producers or traders interested, and of which the existence is not contrary to the laws of their country, to take proceedings in the Courts or before administrative authorities with a view to securing repression of the acts referred to in Articles 9, 10 and 10 *bis*. so far as the law of the country in which protection is claimed permits such action to the syndicates and associations of that country.”

The above provisions are prospective in nature and this Court's attention is directed particularly to Article 10 Ter. (1) by which the adopting countries merely covenant to assure appropriate legal remedies to repress the acts referred to in, among others, Article 10 Bis. Indeed, Article 10 Bis., which itself states the principle upon which Kemart relies, provides that “*the following principally are to be forbidden.*” (Italics ours).

In contrast is the Treaty ruled upon in *Bacardi Corporation of America v. Domenech* (1940), 311 U. S. 150, 85 L. Ed. 98, cited by Kemart. There the Supreme Court was concerned with the General Inter-American Convention for Trade-mark and Commercial Protection. The court particularly noted at page 159 (311 U. S.) the portion of the Treaty to the effect that its provisions “shall have the force of law in those States in which international

treaties possess that character, as soon as they are ratified by their constitutional organs.” The court further recited at length and carefully delineated the provisions of the Treaty setting forth the various rules and regulations relating to the protection of trade-marks. In its decision, the court struck down a provision of the Puerto Rican law which conflicted squarely with the provisions of the Treaty.

We are not urging here any implied exception to or restrictive interpretation of Article 10 Bis. of the Paris Convention. Rather, we propose that the general principle therein set forth simply does not reach the issue before this Court, namely, whether or not good faith and privilege constitute a defense to an asserted cause for unfair competition or libel arising out of a charge of infringement, later judicially determined to be erroneous. Were it otherwise, extraordinary results would flow. The theory presented by Kemart is an all or nothing theory and of necessity requires that Article 10 Bis. be applied as written subject to no exceptions. Thus, under Kemart’s theory, it would appear that no effective investigation into suspected infringement could be undertaken by a patentee lest he be accused of conduct in trade amounting to unfair competition; it would appear that in conducting a business in the course of trade an employee of a patent owning company could not suggest infringement by a competitor’s product to a fellow employee. Absurd consequences are conceivable outside the patent field whereby the ability of honest, but highly competitive manufacturers and traders to promote their wares would be gravely

hampered. Since the language of Article 10 Bis., if construed as Kemart would have it, admits of no defense, these consequences seem implicit in the position taken by Kemart. Since, however, Article 10 Bis., as written, merely sets forth a general principle and does not purport to define defenses which we may fairly assume must have been intended, we can only conclude, consistent with the view of the Court of Appeals for the Second Circuit in *Vanity Fair Mills, Inc. v. The T. Eaton Co., Limited and John David Eaton, supra*, that the protection afforded is intended to complement American law—not obliterate it.

As we have stated above, we know of no court in the United States which has accorded to Article 10 Bis. the effect argued for by Kemart. Rather, for decades since the adoption of the Convention this Court and the other State and Federal Courts have consistently held that American law determines the defenses available to a charge of unfair competition. The Restatement, Nims and Callman certainly do not consider American law on this subject as nonexistent. The many decisions of our courts were before Congress when it considered the general question of unfair competition under the Paris Convention and the specific question of notices of patent infringement. In neither instance did Congress see fit to place domestic law on a footing consistent with the interpretation of Article 10 Bis. urged for by Kemart. In Section 44 of the Act of 1946 (U. S. Code, Title 15, Section 1126) Congress, in specifically implementing the Paris Convention, made no

effort to abolish the well-established defenses of good faith and privilege. In Section 287 of the Patent Act of 1952 (U. S. Code, Title 35, Section 287) Congress had equal opportunity to limit the rights of patentees in issuing charges of infringement. Not only did Congress fail to change the existing case law, but it made mandatory the issuing of notices of infringement where the patentee had failed to mark the patented article and desired damages.

We reiterate that we do not urge that Article 10 Bis be ruled subject to implied exceptions. It states in 2° that "False allegations in the conduct of trade of a nature to discredit the establishment, the goods or the services of a competitor" are to be forbidden. If we are to assume that such allegations are to include charges of patent infringement, it does not follow that we need accept the principle *in vacuo*. Since it neither expressly nor by implication purports otherwise, we construe it as complementary to and as generally expressive of American law.

V.

The District Court Did Not Abuse Its Discretion in Refusing to Award Attorney's Fees to Kemart.

As regards the award of attorney's fees in patent cases, the law in this Circuit is set forth completely in *Park-In Theatres, Inc. v. Perkins et al.* (9 Cir. 1951), 190 F. 2d 137. In that case, this Court said at page 142:

“ . . . Thus, the payment of attorney's fees for the victor is not to be regarded as a penalty for failure to win a patent infringement suit. The exercise of discretion in favor of such an allowance should be bottomed upon a finding of unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of similar force, which makes it grossly unjust that the winner of the particular law suit be left to bear the burden of his own counsel fees which prevailing litigants normally bear. . . .”

In his Findings of Fact, Judge Mathes found:

“14. The instant case was not an exceptional case and defendant's conduct before, during and after the trial of the case evidenced no unfairness or bad faith; such conduct was actuated by a reasonable belief in good faith that plaintiff's process was an infringement of defendant's patent.

“15. Neither the conduct of the defendant nor any other equitable consideration makes it grossly unjust that the winner of this patent law suit be left to bear the burden of its own counsel fees, which prevailing litigants normally bear.”

We have observed previously the well-settled rule that a Court of Appeals will not upset the findings of the District Court unless such findings be clearly erroneous

and lack substantial evidence to support them. Upon review of a refusal to award attorney's fees in a patent case, we submit that the findings of the District Court are even more binding because there must be an abuse of discretion on the part of the District Court before the reviewing court will interfere.

As with the factual question of good faith, however, Kemart points to parts of the evidence in the record before this Court and from these would have the Court make certain inferences which Kemart urges should cause this Court to rule that Judge Mathes abused his discretion.

As we have pointed out before, the instant litigation was hard fought. The trial on the Marx patent resulted in a holding by Judge Mathes that the Marx patent was valid and infringed. His decision was reversed by this Court but not on the basis of any factual misrepresentations below, but rather on the ground of claim interpretation as a matter of law. We submit that as with the matter of alleged bad faith in connection with appellee's original charge of infringement, the entire record not only fails to provide a basis for a holding of abuse of discretion but affords convincing proof that attorney's fees should not have been awarded.

Kemart's contentions have been dealt with on pages 11 to 14 of this brief in our statement of the case and in Section III of this brief wherein was considered Kemart's argument that appellee made its charges of patent infringement and filed its counterclaim in bad faith. Judge Mathes disposed of each and every of Kemart's contentions in his Findings of Fact 1-D, 2, 6, 8 and 10 through 15, inclusive [R. 27-30].

Conclusion.

The Supreme Court, this Court and various other Courts of Appeals have pointed out when the occasion demanded how patents would be of little value were the patent owner obliged not to warn those believed to infringe of the consequences of their infringement. In U. S. Code, Title 35, Section 287, Congress has required that notice of infringement be extended present certain circumstances. In Section 284 of the same Title, Congress provides for treble damages for patent infringement and in considering the question of such damages a principal question to be determined is whether or not the infringer was on actual notice of his infringement. It is to Congress that the patent power is delegated, and while we do not propose that Congress has completely preempted this field, the according to the State of Ohio of a principle such as is urged for by Kemart would seem inconsistent with Congressional intent, if not encroachment on the Congressional prerogative. In any event, we submit Judge Mathes' findings as to appellee's good faith and *bona fides* to be manifestly supported by substantial evidence, and we submit that under the law of Ohio and elsewhere and under the law of this Circuit, appellee is neither liable to Kemart for an improper publication of a charge of patent infringement nor for attorney's fees.

Respectfully submitted,

JULIEN F. GOUX,

LEONARD S. LYON,

LEONARD S. LYON, JR.,

ROLAND N. SMOOT,

Attorneys for Appellee.

